

AFFORDABLE HOUSING IN SITKA

A Report to the Sitka Long Range Planning & Economic Development Commission



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EXECUTIVE SUMMARY

This preliminary report investigates the issue of affordable housing in Sitka and presents suggestions for solutions. Solving affordable housing is an increasingly serious challenge across the country. This issue impacts communities and individuals at all income levels, affecting all aspects of community life, from economic health, to finding coaches for kid's soccer or baseball teams.

Based on this brief initial study, it is clear that Sitka housing prices are rapidly outpacing Sitka incomes. For Sitka to remain a diverse, successful place to live, work and raise a family, the community needs to move forward with an aggressive program to increase the supply of affordable housing. Findings supporting this conclusion are summarized below; the attached report gives more details.

DEFINITIONS – WHAT IS MEANT BY AFFORDABLE HOUSING?

Housing is considered affordable to a household if that household pays no more than 30% of its gross income for basic housing costs. For homeowners, this includes mortgage payments, property taxes, insurance, and utilities; for renters, this includes rent and utilities. Government affordable housing programs commonly focus on assisting people who earn some specified percentage of the local median income, but in Sitka the issue of affordability impacts families at all income levels.

SITKA TODAY - A GROWING GAP BETWEEN INCOMES & HOUSING PRICES

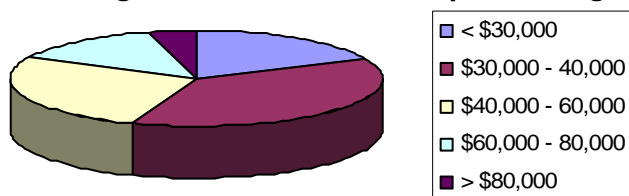
(See sections 1-6 of the attached report for details)

- **Housing Prices are Rising around the Nation...** Housing prices are climbing dramatically in Sitka and around the country. Nationwide, housing prices rose 12.5% from 2004 to 2005; prices have grown faster nationwide in the last two years than anytime in last 25 years.
- **...And Prices are Rising Even Faster in Sitka.** Housing prices are rising fastest in high amenity communities like Sitka.
 - The median priced home for the year ending July '05 was \$275,000, up 18% from 2004.
 - Time on the market and housing starts are declining; the annual total value of building permits in Sitka is up.
 - Housing to buy or rent is increasingly difficult to find at all market levels. Sitka's largest rental agency had no properties available for rent as of August 2005.
- **Why Are Prices Going Up? Sitka Is Experiencing the "Perfect Storm" for Housing Prices**
 - Nationwide: interest rates are low, the economy is stable, the baby boom is inheriting billions.
 - Sitka's population and economy continue to grow.
 - Local demand is supplemented by pressures from outside the community – for seasonal rentals, retirement homes.
 - Land for new development in Sitka is severely limited; buyers can't shift their demand to outlying, lower cost property.
 - Local developers prefer to build standard market rate single family housing because it is seen as being simpler to develop and more lucrative.

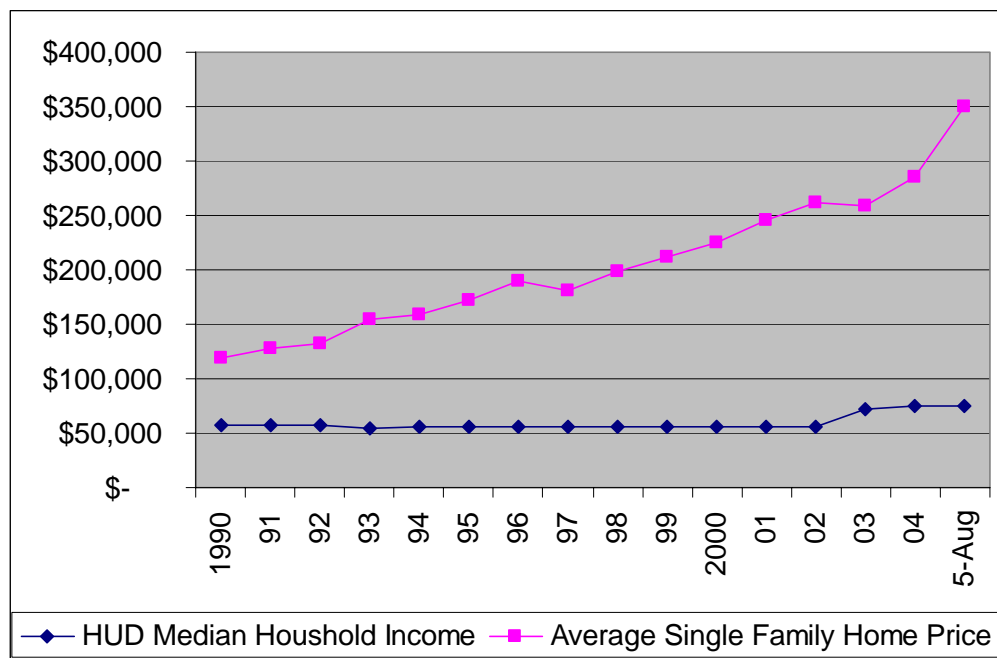
The result: rapid price escalation – 80% of the housing on the market in August 2005 was offered at prices over \$300,000, up from 33% of the housing from Aug 02-August 03.

- Meanwhile Sitka Average Incomes are Flat or Declining...** Population, payroll, and the numbers of Sitka jobs have returned to levels matching the early 90's, but average incomes have declined. The Sitka economy is increasingly dominated by lower paying service jobs. According to the State Department of Labor and Workforce Development, from 1993 to 2003, "Sitka's inflation- adjusted average individual monthly earnings dropped from \$2,100 to \$1,800". The Sitka Long Range Planning and Economic Development Commission recently surveyed Sitka's largest employers, including 1400 positions, or a third of the total Sitka labor force. Results, shown in the pie chart below, reveal that 55% of local employees earn less than \$40,000 annually, and less than 1 in 5 earns over \$60,000 a year.

Annual Wages - % of Individuals Surveyed; Earning in Each Range:



- The Bottom Line – A Growing Portion of Sitka Residents Can't Afford to Live in Sitka**
 As the chart below shows, Sitka is experiencing a steadily widening gap between incomes and housing prices.



Source: Agnew::Beck Consulting, income data from US HUD; housing price data from Sitka-based real estate and appraisal firms.

The gap shown in the chart above is made vivid through a look at the specifics of current incomes and housing prices. The 2004-2005 median Sitka house, at \$275,000, requires monthly mortgage payments shown below (at 6.125% interest rate).

Comparison of Median Household Income to Median Sitka House

Income Definition	Median Annual Household Income	Median Monthly Household Income	Percent Available for Housing	\$Income Available for Housing	Mortgage for \$275,000 House (2004-2005 Median Price)*		Mortgage for \$400,000 House (Aug. 2005 "Median" House)**	
					Without utilities, taxes, ins	With***	Without utilities, taxes, ins	With***
Median Household Income (HUD)	\$75,000	\$6,250	30%	\$1,875	5% down \$1,917	5% down \$2,205	5% down \$2,274	5% down \$3,190
Median Household Income (Adjusted HUD)	\$54,500	\$4,550	30%	\$1,365	20% down \$1,496	20% down \$1,720	20% down \$2,162	20% down \$2,486

*Median price house, Summer 2004- 2005 is \$275,000; figures show a 30 year mortgage, at 6.125% interest rate. With 5% down, initial cash required is \$20,612; with 20% down, initial cash is \$60,245. Not shown is zero down payment, requiring \$9,946 initial cash payment, with a 30 year monthly payment of \$2051.

** Based on late Summer 2005 listings, using \$400,000 as estimated median price, same assumptions

*** "Without" excludes utilities, insurance, property taxes; "with" includes these costs – estimated at 15%.

When taxes, insurance and utilities are included, households earning less than \$75,000 annually or \$6,250 per month - half of all Sitka households - do not have sufficient income to purchase the median Sitka house. If the more recent figure for housing prices is used (closer to \$400,000), or the likely more accurate local income data ("adjusted HUD") are used, the percentage able to afford buy a house drops significantly. (See Section 6 of the attached report.)

- **Vulnerability of Existing Affordable housing Stock** Several mobile home parks currently provide the majority of the lower cost housing available in Sitka. Pressure is mounting for sale of these areas and conversion to new uses. Loss of this housing would greatly exacerbate an already severe problem.

IMPACTS OF THE LACK OF AFFORDABLE HOUSING

The long term lack of affordable housing gradually tears the fabric of what makes a community whole, diverse, and economically sound. Specific impacts include:

- **Impact on Workforce.** Employers have difficulty attracting/retaining employees without being able to guarantee access to affordable housing. For example, in a June 2005 public hearing that was held on this subject, Dave Felland, Director of the University of Alaska Southeast, Sitka, reported that three of the University's new hires may decide to reject offers of employment due to their inability to find even short term rental housing in the Sitka community. In May 2005, the Sitka Education Consortium, which is a collaborative of the Sitka School District, UAS, Sheldon Jackson College, and the Mt. Edgecumbe High School, with additional support from the Sitka Tribe of Alaska and SEARHC, sent a letter to the City Staff and Assembly members calling for "attention to our concerns about the lack of affordable, quality housing in Sitka." This letter characterizes the housing issue as "a very real crisis" for the community "that threatens the quality of our education system, and ultimately the economy of Sitka." See Appendix A
- **Impact on Young People and Younger Families.** Housing in Sitka is increasingly out of reach of young people and younger families, either the children of long time residents, or new residents, who would raise a family and make a life in Sitka. These differences likely contribute

to recent declines in Sitka school enrollment and population between the ages of 25-45, which have both dropped nearly 20% in recent years.

- **Secondary Economic Impacts.** The lack of affordable housing effects more than just the world of housing. For example, the number of uninsured clients at the City-operated hospital is continuing to rise. While hard evidence is not available, one likely explanation is that residents spend an increasingly large percentage of their incomes on housing, leaving less available for health care (and for discretionary spending on all the other businesses in the community).
- **Impacts on community character.** Communities with rapidly escalating housing prices become oddly distorted, with a population typically including mostly the very wealthy and the poor. The excluded middle class is essential to community life – to coach little league, serve on boards and commissions, sponsor a Boy Scout troop, and help make a town into a community.

COMMUNITY RESPONSE – ACTIONS TO PROVIDE MORE AFFORDABLE HOUSING FOR SITKA (See Section 7 of the attached report for more details)

The Long Range Planning & Economic Development Commission, working with consultant Agnew::Beck, developed the set of recommendations below. These proposals are built around a consideration of the particular opportunities and challenges facing Sitka, and are intended to provide a strong starting framework for action. The authors of this report recommend that the Sitka Assembly adopt this framework and take action.

1. Create a new CBS long range planning position, to focus on housing issues

To make progress, the City and Borough needs to establish a new position and fill this position with a person who has sufficient experience in this field to take the lead on all aspects of the affordable housing issue – on all the tasks described elsewhere in this report. The Long Range Planning Commission considers this recommendation to be of critical importance if implementation of recommended strategies is to be accomplished.

2. Prepare a “Long Range, Affordable Housing Action Plan”

Sitka needs to establish a broad, strong consensus that affordable housing is a serious issue, and a commitment to take actions to address this challenge. The best way to reach these objectives is for the City and Borough of Sitka to work with the community to prepare a CBS-approved, widely supported long range housing action plan. Outcomes of this step must include:

- Strong local affordable policy, building from the framework established in this document.
- Specific affordable housing targets (e.g., of total housing stock, at least 20% will be affordable to those earning 80% of median income).
- Consensus among all the parties who need to implement the plan, including CBS leadership, residents and businesses, developers, builders, land owners, partner agencies and organizations.
- An updated comprehensive plan that is consistent with adopted affordable housing policy
- A realistic implementation schedule.
- A realistic strategy for acquiring resources to carry out the plan.
- A strategy to partner with or establish a local housing organization.
- An annual audit and / or quarterly reports from the Long Range Planner to the Assembly to highlight progress of programs.

3. Implement Three Key Strategies

The list below identifies three critical action steps to create more affordable housing in Sitka.

A. Increase Supply of Land Available for Housing

While incomes are a factor in Sitka's housing problems, the crux of the affordable housing challenge is simple – there is not enough land in Sitka available for housing. A major effort is needed to substantially expand the land supply. Key specific steps include:

- City and Borough of Sitka will take the lead to secure funding and develop infrastructure needed to open new areas to development.
- City and Borough of Sitka and the community will make a significant local contribution to fund these improvements, and also facilitate the support and collaboration of other partners, including affected land owners, state agencies, the legislature and the state's congressional delegation.
- Plans to expand roads and other infrastructure for housing will be tied to broader community goals, such as improved access to resource development and recreation areas
- City and Borough of Sitka will increase areas zoned for residential uses, and for mixed use including residential.
- City and Borough of Sitka will pursue conversion of surplus local State and Federal properties affordable housing when appropriate.
- Before new areas are developed, the City and Borough of Sitka will evaluate them for their potential as affordable housing.

B. Revise City Land Use & Zoning Policy to Encourage Higher Density Housing

Even with significant new areas opened for housing, Sitka will always be an island of private property in a sea of public lands, squeezed between the mountains and the ocean. Consequently the community needs to make a major shift in thinking – from a focus on large lot detached homes to higher density housing. This transition is taking place in small communities around the US, particularly resort and mountain communities, and does not mean a decline in quality of life. Nationwide, condominiums appreciated faster over the last two years than detached housing, reflecting the growing demand for quality, higher density housing. Keys to creating quality include an excellent community open space and trail system, pedestrian access to shopping and services, and high quality design and construction. Specific actions to reach this objective include:

- Revise zoning code to encourage traditional forms of higher density housing, e.g., town houses, condominiums, apartments, duplex/zero lot lines, trailer courts, and to encourage newer forms of higher density housing, such as detached, cottage style housing
- Promote construction of prefabricated housing, including manufactured homes, modular homes, panelized homes and pre-cut homes, mobile homes.
- Encourage use of “mother-in-law”/accessory housing units to increase availability of affordable options while reducing demand for additional infrastructure development. To support affordable housing goals, incentives should be provided to encourage these units to be used for year round rather than seasonal rentals. Appropriate standards are needed for the size, appearance and parking of such units. (e.g., Girdwood AK)
- Encourage infill; rehabilitate non-residential structures for residential use.

C. Take More Advantage of Programs that reduce Costs to Develop and Increase the Supply of Affordable Housing

Numerous programs exist to help communities and developers produce affordable housing, particularly housing directed at people with incomes below median levels. There are also actions possible at the local level. Specific recommended actions, to be pursued by the staff Long Range Planner, include:

- Facilitate partnerships with for-profit developers to take advantage of the Alaska Housing Finance programs, including the Low Income Housing Tax Credit Program.
- Pursue State & Federal grant programs to reduce development costs, both for dwellings & infrastructure – e.g. Community Development Block Grant.
- Coordinate with major employers to assist in providing housing for their employees, particularly seasonal housing.
- Create database of affordable housing funding opportunities for City, non-profit & for-profit developers.
- Research reduction or elimination of permit fees and connection fees for water, sewer and electricity for affordable housing; research waiver of local sales tax on long-term rental properties.
- Help residents better take advantage of established government programs that reduce costs to individuals of buying or renting a home.

4. Develop Partnerships to Provide Affordable Housing

The City and Borough will take the lead in developing partnerships with other organizations who share a role in addressing affordable housing issues. High on the list of prospective partners are major land owners such as the Alaska Mental Health Trust Authority, University of Alaska, and Native Corporations. Other important partners include major local employers and agencies such as the US Forest Service. Partnerships are needed for fundraising, and for infrastructure improvements, land transfers, land development, and construction of affordable housing.

5. Establish Local Non-Profit Organization to Help Provide Affordable Housing (or Join Forces with an Existing Organization)

Most communities that have successfully dealt with the challenge of affordable housing partner with or establish a local non-profit housing organization, such as a land trust or housing authority.

Possible actions of such an organization include:

- Serve as a coordinator for a range of affordable housing programs
- Generate and help manage local affordable housing fund (resources generated through impact fees, taxes, bonds, grants)
- Develop and manage affordable housing projects
- Hold right of first refusal to for-sale affordable housing, so appreciation accrues to housing authority
- Establish local revolving loan fund for low interest construction loans

6. Take near term actions that produce immediate benefits and avoid lost opportunities

While the community is moving ahead with hiring a long range planner, developing an affordable housing plan and the other key steps outlined above, there are several key opportunities that should not be missed for immediate action.

- Extend the existing moratorium on new seasonal rentals in residential zones until the topic can be examined as part of a comprehensive housing plan.
- Design and implement a process for the evaluation of all City and Borough of Sitka lands to determine their potential utility as sites for affordable housing development. This process would be a precursor to any issuance of requests for development proposals.
 - Prepare site and seek proposals for a planned unit housing development on the site of the old city shops
 - Facilitate zero lot line development on city-owned Indian River Road parcels.
- Initiate a public discussion with the goal of City acquisition of the University of Alaska benchlands and the development of that property into future housing.
- Incorporate an approved affordable housing plan into the Sitka Comprehensive Plan.

AFFORDABLE HOUSING IN SITKA

A Report to the Sitka Long Range Planning & Economic Development Commission

I. INTRODUCTION

This report presents a planning document for better understanding and responding to affordable housing issues in the City and Borough of Sitka. The report provides a general framework for action, but assumes significant additional work will be needed to flesh out and implement specific affordable housing strategies.

The report explores the following questions:

- How much does it cost to rent or own a house in Sitka, and how is this changing?
- To what extent is there a gap between housing costs and incomes and between housing supply and demand?
- What might be done locally to better meet present and future housing needs? What are the consequences of inaction?

The report is organized as shown below.

1. Introduction
 2. Definitions and Overview of the Issue
 3. Context for Housing Prices – National Trends
 4. Sitka’s Housing Market – A Look at the “Supply Side”
 5. Sitka Incomes – the “Demand Side” of Equation
 6. Summary – Comparing Incomes Against Housing Costs
 7. Options and Recommendations for Action
- Appendix A – 2005 Letter from the Sitka Education Consortium

This report was prepared by Agnew::Beck Consulting, under contract to the Sitka Long Range Planning and Economic Development Committee, with the assistance of the Sitka Economic Development Association.

2. DEFINITIONS & OVERVIEW OF THE ISSUE

“Economic stratification will in fact be the defining issue of the next decade. Mountain towns are more than the sum total of altitude, log mansions, and tourists. Locals *are* the community, yet they can no longer afford to live in the towns they helped to create. As gentrification intensifies, only the very rich, and sometimes the poor, remain. The middle class has fled and with it the vitality that makes these places (good places to live, and) exciting places to visit.” *excerpt from an article in Planning Magazine, Change Comes to the Mountains January 2003, APA, Miles C. Rademan, AICP*

The quote above is an excerpt from an article about affordable housing in mountain towns, but this description applies equally in all high amenity communities. Sitka is increasingly facing the challenge of housing prices growing beyond what many local residents can afford. This problem is most acute for low-income residents, but is becoming a real problem at all income levels – for teachers, nurses, small business owners, and other people who have decent jobs fishing, or working in a store or lodge.

Housing is considered affordable to a household if that household pays no more than 30% of its gross income for basic housing costs¹. For homeowners, this includes mortgage payments, property taxes,

¹ Affordable Housing for San Juan County,
www.co.san-juan.wa.us/planning/Housing%20and%20Population/Affordable%20Housing

insurance, and utilities; for renters, this includes rent and utilities. Utilities costs include water, sewage disposal, electricity and/or gas for lighting, heating and cooking. Telephone service is not considered a basic housing cost. “Affordable housing” encompasses housing within the financial means of a broad range of community residents including low as well as higher income households. The term applies to both rental and purchased housing.

3. CONTEXT FOR HOUSING PRICES – NATIONAL TRENDS

Understanding the increase in Sitka housing prices requires first recognizing this trend is affecting the entire nation. Average U.S. home prices increased 12.50 percent between April 2004 and April 2005.

Appreciation for the second quarter of 2005 was 2.21 percent, or an annualized rate of 8.82 percent. The new data represent the largest four quarter increase since the third quarter of 2004, when appreciation surpassed any increase in over 25 years.

Forces behind this trend include low interest rates, a growing economy, population growth, demand for second homes and investment property, growth in tourism (the world’s largest industry), and the immense wealth being passed to the baby boom generation from their hard-working, frugal parents. While interest rates and the economy may change at the national level and effect housing demand, these other broad trends are likely to continue to put upward pressure on prices.

4. SITKA’S HOUSING MARKET – A LOOK AT THE “SUPPLY SIDE”

HOUSING PRICES AND DEMAND

The average household in Sitka is 2.61 people. Of the 3,650 total housing units, there are 1,903 owner-occupied and 1,375 renter occupied (2000 US Census). Sitka is widely viewed as experiencing a serious housing shortage, and rapidly escalating prices; Tables 1 and 2 below support this perception, particularly for purchased homes.

Table 1 – Sitka Housing Prices

Single Family and Single Family with Apartment				
	Number Sold	Average Price	Median Price	Avg Days on Market
7/2002-7/2003	53	\$261,617	\$229,900	257
7/2003-7/2004	38	\$259,014	\$232,450	199
7/2004-7/2005	34	\$284,603	\$275,000	165
April 05	7	\$258,643	\$264,500	131
May 05	1	\$415,000	\$415,000	136
June 05	2	\$329,250	\$329,250	103
Mobile Homes				
7/2002-7/2003	4	\$63,875	\$37,750	0
7/2003-7/2004	5	\$38,800	\$38,000	131
7/2004-7/2005	3	\$20,500	\$24,000	87
Mobile Homes on Lots				
7/2002-7/2003	0	N/A	N/A	257
7/2003-7/2004	2	\$245,000	\$145,000	199
7/2004-7/2005	2	\$131,000	\$131,000	165

This information is from the Multiple List Sold (MLS) Market Analysis July 2002 – July 2005

The ‘Days on Market’ required to sell an existing home has fallen steadily, from 257 to 165 days, and even fewer days in the last several months. According to the MLS Multiple Listing Service, the median sale price of a single family home in the 12 months ending in July 05 is \$275,000, up from \$229,900 in 2003.

Table 2 – Sitka Average Rental Prices

	Single Family	Apartments	Mobile Homes
1999	\$980	\$820	\$782
2000	\$994	\$824	\$730
2001	\$1067	\$898	\$940
2002	\$1056	\$863	\$1062
2003	\$1076	\$856	
2004	\$1051	\$914	

Alaska Housing Finance Corporation - The City sales tax of 5% applies to the first \$1,000 in rent only each month.

Local real estate agents say demand to purchase second and retirement homes is not a significant factor in local real estate demand. However, demand for seasonal vacation rentals is strong, and has affected community housing supply. In July 2005, the City passed a one-year moratorium preventing any further seasonal rentals in residential areas.

Recent local experience suggests strong but largely unmet demand for quality, higher density housing. A small condo project now under construction is selling out, offering 850 square foot units at \$250,000. Another project, just getting started, is offering 1000 square foot units and is already getting offers of \$300-350,000 per unit. At the national level, over the last 2 years, the value of condominiums appreciated more rapidly than single family detached homes.

LAND AND HOUSING SUPPLY

Sitka is a small island of private land in a sea of public and institutional lands. The natural relief valve for escalating housing prices – buying to the outskirts where land is cheaper – is not an option in Sitka. And while there are a number of suitable, large undeveloped private and institutional parcels in the area, costs for infrastructure are high and keep available land from being developed².

Table 3 - Range of Housing offered for sale in last 3 years.

Home Price Range	Number of Homes Offered for Sale			Homes on Market Today
	August '02 to August '03	August '03 to August '04	August '04 to August '05	
< \$100,000	8	8	6	2
\$100,000 – 199,999	16	16	7	1
\$200,000 – 249,999	32	16	10	2
\$250,000 – 299,999	15	12	13	4
\$300,000 – 399,999	21	15	23	9
> \$400,000	14	9	19	30
% over \$300,000	33%	32%	54%	81%

Compiled by Agnew::Beck and SEDA, working with MLS data

Table 3 provides an additional picture of the supply side of the Sitka real estate market. As this table indicates, the share of the housing at the high end of the market is steadily increasing. In the 2002-2003 period, 33% of the housing was above \$300,000; in the 2004-05 segment, this increased to 54%. This trend is particularly strong at the time of the preparation of this report. As of August 2005, 81% of housing on the market was priced at over \$300,000.

Rental housing is also very tight in Sitka, and seasonal in nature with more rentals available Sept. through May and few to none during the summer months. No apartments have been built in Sitka for 15 years. According

² If available, more detailed information should be added as an appendix to this report giving an inventory of large parcels potentially available for development. For example, the UAA Benchlands area could provide a major addition to housing supply. This parcel is being offered for \$2,000,000, but needs \$4-5 million in water, sewer and roads before it can be developed.

to the 2000 census, 42% of Sitka households occupy rental housing – including single family, multi-family units and trailers. An interview by SEDA with a representative of Re/Max of Sitka, who has the largest selection of rentals in the area, gives weight to this conclusion. Re/Max maintains about 100 rental properties. Of those, 4 are houses, 40-50 are trailers/mobile homes, and 50 or so are apartment rentals. The majority of their apartment rentals run in the range of \$1,000-\$1,250, with currently nothing available. Turnover time is very fast; units are usually only on the market for 2-3 days. The 4 houses rented by Re/Max range in price from \$1500-\$1,800. Two of these houses will be taken off of the market at the end of the year.

Odds are good the Sitka affordable housing market will tighten further due to the possible conversion of one or more trailer courts to other uses. This is worrisome because there is no place for these tenants to relocate; some of these parks house 30-40 mobile home units. Recently, one of these parks was sold and then the sale nullified when the owner understood the impact on the community. Over the last 6-12 months, Michael LaGuire, who owns Re/Max of Sitka has had several inquiries into purchasing local mobile home parks, with the intent of removing the tenants and building homes.

Table 4 below gives another picture of changes in the Sitka housing market. As shown, the number of homes being built and sold is declining, while the value of housing being built is increasing.

Table 4 – Trends in Housing Construction

Data Set:	2000	2001	2002	2003	2004
Housing Starts	39	85	62	59	49
Homes Sold	115	114	139	131	113
Building permits (in millions)	\$11.1	\$16.6	\$16.4	\$19.3*	\$17.9

* Sheldon Jackson building constructed

City Land Use Policy – Views vary on the impact of Sitka’s zoning codes on housing supply and costs. Several people interviewed said the code is not a barrier to affordable housing; others said the code should be revised to create more incentives for higher density, lower price housing. City code requires single-family homes to be on lots of at least 8,000 square feet but the Planning & Zoning Commission has recently approved smaller lots in well-planned developments as a method to reduce housing costs.

A selection of quotes below from interviews with local individuals familiar with the housing market strengthens the story shown in the numbers.

- “Sitka homes are being snatched up as quickly as they come on to the market.”
- “Two homes came on the market in July this year, at approximately \$300,000 each, and both received 3 offers at or above the asking price within 24 hours.”
- “A planned forty lot subdivision, which won’t be on the market for several months, was completely sold out 6 months ago.”

SUMMARY OF SITKA HOUSING MARKET CHARACTERISTICS

- Sitka is seeing the “perfect storm” for housing price escalation:
 - Nationwide trends – low interest rates pushing housing prices up around the country
 - Growing demand for seasonal rentals, a trend experienced in many communities that offer strong amenities and consequently attract tourists and retirees
 - Local constraints in housing supply – home construction is declining, vacant land is limited or unavailable, and housing starts can’t keep pace with demand.
 - Local developers prefer to build standard market rate single family projects because they are seen as being simpler to develop and more lucrative.

The result: rapid price escalation – 80% of the housing on the market in August 2005 is being offered at prices over \$300,000, up from 33% in Aug 02-August 03.

5. SITKA INCOMES – THE “DEMAND SIDE” OF THE EQUATION

Several recent sources provide a description of trends in Sitka’s economy and population. These include the State of Alaska Department of Labor and Workforce Development’s February 2003 article on Sitka in Trends magazine, a report prepared by McDowell for SEDA in fall 2004, and the range of economic data compiled by SEDA, much of which is presented on their website.

The key finding from this research is that, since the mill closure in the early 90’s, the number of Sitka jobs have increased but average earnings have declined. Specifically, between 1993 and 2001, the total number of jobs in Sitka increased 2.4%. Meanwhile, as reported by the State Dept of Labor, “real average monthly wages, expressed in constant 1990 dollars, have fallen sharply from over \$2100 per month in the early 1990s to just over \$1800 per month in 2001.”

Median income figures from government surveys never tell the full story of incomes. These figures do not capture investment incomes, incomes to the self-employed, and some of the more unorthodox ways of earning money common in Alaska. And while the average wage has fallen, Sitka still offers many well paid jobs, for example in health care. The people moving in to take these positions often are the ones who can afford homes in the \$300,000 and higher range.

Sitka’s labor force averages 4,000 employed and an unemployment rate of 3.5% to 4.0% during the summer season and 7% to 9% in the winter season. Labor shortages typically occur in the tourist season of May through September for jobs in the \$10 or less per hour range. For positions paying from \$12 to \$15 per hour, or more, the labor force is plentiful. Sitka’s 2002 per capita income was \$31,554 and ranked below that of other major cities in the region (Juneau \$36,086, Ketchikan \$37,012, Alaska \$32,799) (*excerpt from SEDA website*).

The three tables below examine incomes in Sitka from three perspectives: Table 5 - the 2000 US Census; Table 6, data from a 2005 survey of employers carried out by members of the Sitka Long Range Planning and Economic Commission; and in Table 7 - 2004 data from the State Department of Labor.

**Table 5 – Family & Household Earnings Distribution for Sitka
2000 Census, based on 1999 Data**

Income Range	Percentage of Families Earning in this Range	Number of Families	Percentage of Households in this Range	Number of Households
Less than 24,999	10.80%	242	18.2%	597
25,000 - 49,999	24.70%	554	29.6%	969
50,000 - 74,999	25.40%	570	22.1%	724
75,000 - 99,999	20.30%	456	15.5%	507
100, 000 - 149,000	12.40%	279	9.6%	315
150, 000 and greater	6.40%	144	5.2%	169

Note Census and State data do not include self-employed.

Median household income: \$51,901. Total households in Sitka: 3,281. Census household definition includes all of the people who occupy a housing unit.

Median family income: \$62,361. Total families in Sitka: 2,245. Family definition: A householder and one or more people living in the same household who are related to the householder by birth, marriage, or adoption.

Table 6 - Sitka Employment and Wages by Industry
2005, Survey by members of the Sitka Long Range Planning Committee

Employer	Annual Wages - % earning:				
	< \$30,000	\$30,000 - 40,000	\$41,000 - 60,000	\$61,000 - 80,000	> \$80,000
A	2.56%	5.13%	41.03%	47.44%	3.85%
B	22.73%	15.91%	56.82%	2.27%	2.27%
C	0.75%	9.02%	53.38%	34.59%	2.26%
D	18.60%	46.51%	27.91%	4.65%	2.33%
E	14.12%	72.94%	10.59%	0.00%	2.35%
F	3.69%	94.83%	1.48%	0.00%	0.00%
G	0.00%	44.44%	33.33%	11.11%	11.11%
H	58.33%	33.33%	8.33%	0.00%	0.00%
I	22.14%	28.24%	19.08%	28.24%	2.29%
J	13.84%	23.14%	25.62%	19.21%	18.18%
K	41.03%	38.46%	16.67%	3.85%	0.00%
Average	17.98%	37.45%	26.75%	13.76%	4.06%

This sample of businesses includes approximately 1400 positions, or 1/3 of the total Sitka labor forces of 4000 people. Based on the similarity of these results with the results of the US Census and State Department of Labor, it is presumed these 2005 data can be used as a reasonable proxy for wage incomes of all Sitka workers.

Table 6 gives a good indication of the degree to which pay varies between major Sitka employers. For example, among the surveyed employers, those earning less than \$30,000 range from less than 1% to 41% of the all employees.

Table 7 - Sitka Borough Employment and Wages by Industry
2004, State Department of Labor and Workforce Development

Industrial Classification	Average Number of Monthly Employees	Average Monthly Earnings	Average Annual Earnings
Construction	227	\$3,476	\$ 41,712
Educational & Health Services	820	\$3,257	\$ 39,084
Information	43	\$2,995	\$ 35,940
Financial Activities	126	\$2,591	\$ 31,092
Manufacturing*	300	\$2,556	\$ 30,672
Natural Resources & Mining*	34	\$2,543	\$ 30,516
Trade, Trans. & Utilities	800	\$2,237	\$ 26,844
Professional & Business Services	161	\$2,163	\$ 25,956
Unclassified Establishments*	17	\$1,800	\$ 21,600
Other Services	151	\$1,437	\$ 17,244
Leisure & Hospitality	458	\$1,395	\$ 16,740

*One or more quarter not available, numbers shown reflect an average of available quarters

SUMMARY OF SITKA INCOME CHARACTERISTICS

- Sitka jobs have increased but average earnings have declined – As stated above, adjusted for inflation, Sitka median income is trending downward (even as housing prices climb).
- Income Distribution – The 2000 census shows half of community's households earning less than \$50,000 per year (the definition of median). The 2005 survey of individual businesses in Table 7 shows the majority of surveyed employees (55%) earn less than \$40,000 annually. Less than 1 in 5 surveyed Sitka workers earn over \$60,000 a year.
- Variation in Pay by Job Sector - For the last decade, the growth sectors in the Alaskan economy have been the service industries. The service sector generally pays less than those employment sectors that have declined in Alaska, notably work in resource industries such as oil or timber. Sitka has followed the same trend as the state as a whole, with a steadily increasing reliance on employment sectors with many lower paid employees.

6. SUMMARY - COMPARING INCOMES AGAINST HOUSING COSTS

Judgments about the affordability of housing in a community are commonly made by comparing median household income against housing prices. In Sitka, the most recent systematic income data available for the community comes from the 2000 census, which identifies median household income as \$51,901. Current HUD data, which must be used for participation in government affordable housing programs, reports the median household income as \$75,000 and the median individual income as \$52,500.

It is beyond the scope of this project to review and challenge the HUD figure. Many in Sitka believe this figure is higher than reality. As stated above, the 2005 survey of major Sitka employers (Table 6) shows the majority of surveyed employees (55%) earn less than \$40,000 annually, and fewer than 1 in 5 surveyed Sitka workers earn over \$60,000 a year. One possible approach for gaining perspective on the HUD data is to compare the ratio between HUD median individual and median household incomes to derive an adjusted “median household income” (see below). Using the same 68% ratio applied to the 2005 survey data, the median household income for Sitka can be derived as \$54,500. This figure nearly matches the 2000 US Census figure of \$51,901.

HUD Median Individual Income \$52,500	Is comparable to	2005 Survey Individual Median Income \$37,000
HUD Median Household Income \$75,000		Derived Median Household Income \$54,500

The bottom line is that even with the perhaps artificially high HUD household income number, nearly all the available ‘for-purchase’ housing currently available in Sitka is out of reach of significant portion of all Sitka households. Table 8 presents this comparison. As the table shows, at the HUD \$75,000 median household, about 60% of Sitka households can afford the 2004-05 median housing price of \$275,000. The more recent (August) median house is out of reach at this income level. The 2004-2005 median house is well out of the reach of households earning the adjusted HUD income (\$54,500).

Table 8 – Comparison of Median Household Income to Median Sitka House

Income Definition	Median Annual Income	Median Monthly Income	% Available for Housing	\$ Available for Housing	Mortgage for \$ 275K Median 2004-2005 Sitka House*		Mortgage for \$ 400K August 2005 "Median" Sitka House**	
					Without utilities, taxes, ins	With***	Without utilities, taxes, ins	With***
Median Household Income (HUD)	\$75,000	\$6,250	30%	\$1,875	5% down \$1,917	5% down \$2,205	5% down \$2,774	5% down \$3,190
Median Household Income (Adj. HUD)	\$54,500	\$4,550	30%	\$1,365	20% down \$1,496	20% down \$1,720	20% down \$2,162	20% down \$2,486

*Median price Summer 2004- 2005 \$275,000; figures show a 30 year mortgage, at 6.125% interest rate. With 5% down, initial cash required is \$20,612; with 20% down, initial cash is \$60,245. Not shown is zero down payment, requiring \$9,946 initial cash payment, with a 30 year monthly payment of \$2051.

** Based on late Summer 2005 listings, using \$400,000 as estimated median price, same assumptions

*** "Without" excludes utilities, insurance, property taxes; "with" includes these costs – estimated at 15%.

Table 9A illustrates the annual cost to rent or purchase a home in Sitka, and the annual salary required to afford the annual cost to rent or purchase a home.

Table 9A – Salary-Rental Comparison

	1 bedroom	2 bedroom	3 bedroom	\$250,000 mortgage @ 5.875% *	\$250,000 mortgage @ 6.375% *
Annual cost of fair market rent or mortgage payment	\$8,652	\$10,320	\$15,036	\$21,051	\$23,456
Salary required to make rent/mortgage payment at 30%	\$28,840	\$34,400	\$50,120	\$70,170	\$78,187

* Assumes 5% down

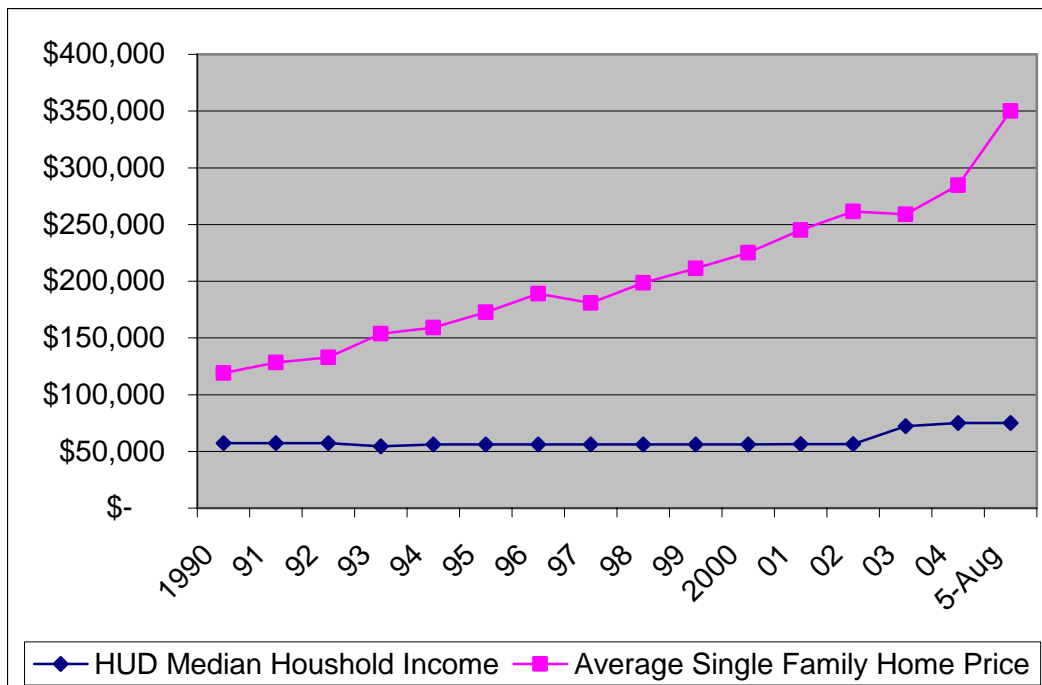
Table 9B on the following page indicates the percentage of employees by employer who would not be able to pay the rent or mortgage if they were to keep their housing cost at or below 30% of their salary. The level of salary required to support different levels of rent or mortgage payments is shown below:

Table 9B – Surveyed Individual Sitka Employees Not Able to Cover Rent or Mortgage Payments Based on 2005 Survey by Sitka Long Range Planning Commission.

Employer	1 bedroom	2 bedroom	3 bedroom	\$250,000 mortgage 5% down	\$250,000 zero down
	% of employees	% of employees	% of employees	% of employees	% of employees
Employer A	All can afford	11%	67%	78%	89%
Employer B	17%	32%	57%	85%	88%
Employer C	11½%	44%	79%	98%	98%
Employer D	72%	80%	94%	98%	98%
Employer E	All can afford	6%	35%	95%	96%
Employer F	32%	59%	86%	100%	100%
Employer G	23%	30%	86%	98%	98%
Employer H	All can afford	1%	24%	79%	96%
Employer I	18%	39%	59%	89%	97%
TOTAL ALL EMPLOYERS (1,079 employees)	19% 207	33% 351	57% 649	82% 886	86% 927

COMPARING INCOMES AGAINST HOUSING COSTS SUMMARY AND IMPLICATIONS FOR THE FUTURE

- Incomes are flat or declining, housing prices are increasing – see graph below



Source:
Agnew::Beck, using
data from US
Housing & Urban
Development ;
housing price data
from Sitka-based
real estate and
appraisal firms.

- “Affordable” housing is needed at all levels – Affordable housing in Sitka is a challenge at all income levels. Supply is constrained and prices out of reach for people earning minimum wage as well as those with salaries well above average. Local real estate agents said there is a particular need for small apartments and condos and for detached single-family homes in \$200-300,000 range, which are now seen as “starter homes”.
- Gap between income and purchased housing prices – As Table 9 shows, the large majority of individual employees do not have sufficient income to buy the median Sitka house currently on the market.
- Uncertain Future for Existing Affordable Housing – Low cost apartments and trailers make up a key component of Sitka’s limited stock of lower cost housing. This section of the housing market is often in very poor condition. As land and housing prices continue to rise, the odds increase that portions of this critical segment of Sitka’s housing stock could be converted to new uses. This is particularly a concern for Sitka’s several trailer courts, which offer the only housing that is affordable to many of the employees working in the community’s health, hospitality and fish processing industries.
- Lack of Affordable Housing has Significant Impacts on Community Life – Lack of affordable housing affects a community in many ways. While the impacts are less vivid than the sudden loss of a major employer (for example, the closure of the mill), over the long term the lack of affordable housing gradually takes away the heart of what makes a community whole, diverse, and economically sound. One tangible impact is the effect on the community’s workforce. Local employers are already struggling to attract/retain employees without a guarantee of affordable housing. The University, for example, recently lost an important teacher who simply couldn’t find a home. Recently the group or organizations in Sitka responsible for education (the Sitka Education Consortium, which includes both universities and the public school district) distributed a letter stating the critical need for more affordable housing in Sitka. (See Appendix A).

Another impact, mentioned previously, is the impact on younger families. Housing in Sitka is increasingly out of reach to the younger families, either the kids of long time residents, or new residents, who would raise a family and make a life in Sitka.

The lack of affordable housing effects more than just the world of housing. For example, according to the hospital administrator, the number of uninsured clients at the City-operated hospital is continuing to rise. While hard evidence is not available, one likely contributing factor is that residents are putting an increasingly large percentage of their incomes into housing, which means they have less available for health care (and for spending on all the other businesses in the community).

7. OPTIONS AND RECOMMENDATIONS FOR ACTION

This section presents actions to address the challenge of providing affordable housing in Sitka. The goal of this section is to provide a comprehensive listing of promising actions and strategies; the executive summary of this report presents a more concise, prioritized list of specific recommended steps.

COMMITMENT & CAPACITY TO GET THE JOB DONE

No matter what specific actions are taken, Sitka needs to establish a strong consensus that affordable housing is a serious issue, and make the commitment to provide more affordable housing in the community. The first step is therefore to prepare a detailed affordable housing action plan. Outcomes of this step must include:

- Consensus among all the parties who need to support and implement the plan, including CBS leadership and staff, residents and businesses, developers and builders, land owners, and partner agencies and organizations.
- Strong local affordable policy, building from the framework established in this document.
- Realistic implementation schedule, including practical near term steps, and more ambitious longer term actions.
- Realistic strategy for acquiring resources needed to carry out the plan.
- Establish City staff position responsible to guide affordable housing program.
- Depending on specific housing strategies, partner with or establish a local housing organization.

AFFORDABLE HOUSING STRATEGIES – A FRAMEWORK FOR ACTION

The list below presents a broad range of promising strategies. Key to the success of this initiative will be to further investigate, refine and set priorities among this list.

Increase Supply of Land Available for Housing

- Update Sitka community inventory of land available for building. Prioritize land based on cost for development/affordability rating. Include in inventory properties that could be renovated or refurbished and offered by particular entity as affordable option. Possibilities include:
 - Benchlands
 - Indian River Road
 - Cove Uplands
 - Lower Granite Creek
 - End of Charles Street
 - High School Tract
 - City Shops Tract
 - Lots in Gavin Subdivision
- Establish partnerships with entities holding lands in the Sitka area. Develop partnership agreements leading to infrastructure improvements, land transfer, land development, and construction of affordable housing.
- Increase areas zoned for residential uses, and for mixed use including residential.
- Invest in utility & road development to open new areas for development, including affordable housing. Options for funding this effort include:
 - federal grants, state or federal appropriation (e.g., working with the Congressional delegation)

- develop infrastructure that serves more purposes than just opening areas for housing (“piggy back” needed affordable housing infrastructure on other projects)
- City funds (e.g., permanent fund)
- City-wide bond measures
- local improvement districts
- tax increment financing

Revise City Land Use & Zoning Policy

- Revise zoning code to allow traditional higher density housing, e.g., town houses, condominiums, apartments, duplex/zero lot lines, trailer courts.
- Encourage new forms of higher density housing; detached, cottage style housing - small single family units, often with shared open space provide standards to ensure high quality development fits with community values
- Waive City development fees for affordable housing
- Include commercial development in affordable housing projects to create additional revenue (e.g., Corte Madera CA)
- Allow construction of prefabricated housing, including manufactured homes, modular homes, panelized homes and pre-cut homes, mobile homes.
- Allow use of “mother-in-law”/accessory housing units to increase availability of affordable options while reducing demand for additional infrastructure development (e.g., Girdwood AK)
- Encourage infill; rehabilitate non-residential structures for residential use.

Take Advantage of City, Institutional Lands

- Sell City land, use proceeds to help fund development of affordable housing.
- Make existing City land available for affordable housing at below market rates.
- Establish municipal land bank to purchase tracts of land for future resale at lower than market prices.
- Partner with other institutional owners (e.g., Alaska Mental Health Trust Authority, University of Alaska, Native Corporations) to develop new housing projects, including affordable housing.

Retain Existing Affordable, Lower Cost Housing (combine this section with other sections?)

- Prepare an inventory of existing affordable housing in Sitka, document the number of units, their price and likelihood they will continue to be affordable
- Provide local support for rehabilitation and revitalization of priority affordable housing buildings and neighborhoods.
- Establish local property tax relief programs.

Reduce Costs to Develop and Increase the Supply of Affordable Housing

- Alaska Housing Finance programs.
 - HOME Investment Partnership Program - HUD funding - average of \$1.5 million awarded annually in AK, 3-5 rental housing projects for low-to-moderate income families; support for for-profit, non-profit developers.
 - Low-Income Housing Tax Credit Program (LIHTC) – IRS program provides federal income tax credits to owners of rental housing where a number of units are set aside for low and moderate income families. Annual credits in Alaska averages about \$760,000.
 - Senior Citizens Housing Development Fund (SCHDF) - \$750,000 to \$1.5 million annually awarded in AK.
- Use State & Federal grant programs to reduce development costs, both dwellings & infrastructure – e.g. Community Development Block Grant (see Fort Collins CO)

- Partner with/require major employers to assist in providing housing for their employees, particularly seasonal housing (e.g., Talkeetna, AK).
- Require new residential construction to include a percentage of affordable housing, or developer to contribute funding in-lieu of construction to local affordable housing entity (e.g., Whistler B.C., other resort communities).
- Create database of affordable housing funding opportunities for City, non-profit & for-profit developers.
- Reduce or eliminate permit fees for affordable housing.
- Reduce or eliminate connection fees for water, sewer and electricity.
- Eliminate local sales tax on rental properties.
- Establish local rent control program.

Education, Partnerships, Leadership

- Publicize housing crisis with spokespersons representing all sectors of Sitka community. Publicity options could include:
 - Informational posters
 - Interviews/open forums on public radio
 - PSA's on public radio
 - Town meetings
 - Agenda items at local meetings such as Chamber of Commerce
- Establish partnerships among parties with a role in providing affordable housing, including:
 - City and Borough
 - Local developers/contractors
 - Developers with particular skills in affordable housing
 - Sitka Education Consortium
 - Local Realtors
 - Chamber of Commerce
- Partner with/establish non-profit local affordable housing organization. Possible actions of such an organization include:
 - Serve as a coordinator for a range of affordable housing programs
 - Generate and help manage local affordable housing fund (generate resources through impact fees, taxes, bonds, grants)
 - Develop and manage affordable housing projects
 - Hold right of first refusal to for-sale affordable housing, so appreciation accrues to housing authority
 - Establish local revolving loan fund for low interest construction loans

Financial Assistance Options

- Take steps to provide better local access to established programs that reduce costs of buying or renting a home. These programs include:
 - USDA housing programs (e.g. 502 mortgage, down payment programs)
 - AHFC housing programs (e.g., assistance with rent, subsidized mortgages)
 - HUD housing programs (e.g., housing vouchers)

Income-Based Strategies

- Support a range of economic development strategies, leading to new jobs, higher paying jobs
- Continue to enhance Sitka's attractiveness to potential new businesses